



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20561

May 18, 1979

STRICTLY CONFIDENTIAL (FR)  
CLASS I - FOMC

TO: Federal Open Market Committee

FROM: Murray Altmann *M. A.*

Attached is a memorandum from Messrs. Axilrod and Holmes, dated May 17, 1979, and entitled "Foreign currency holdings."

It is contemplated that this memorandum will be discussed at the meeting of the Committee on May 22.

Attachment

STRICTLY CONFIDENTIAL (FR)  
CLASS I - FOMC

TO: Federal Open Market Committee

DATE: May 17, 1979

FROM: Messrs. Axilrod and Holmes

SUBJECT: Foreign currency  
holdings

Following discussion by the Committee at its last meeting, we were asked to propose for FOMC consideration a set of informal limits governing the extent to which the Desk could add to foreign currency holdings. At present the Desk is operating under an informal limit of \$500 million for aggregate holdings of foreign currency. Actual holdings total about \$300 million--\$187 million in yen, \$65 million in Swiss francs, \$35 million in DM, and small amounts of other currencies.

We would propose that the limit for total holdings be raised to \$2 billion, and that, consistent with the previous Committee discussion, a \$1 billion limit be set for any individual currency.<sup>1/</sup> Only a relatively restricted range of currencies would be considered for purchase under current market circumstances. Holdings would continue to be concentrated in DM, yen, and Swiss francs. The Desk may also find it convenient to hold modest working balances of other currencies in which operations are possible at present, such as French francs, Dutch guilders, and Belgium francs.

Substantial additions to existing holdings of foreign currencies in the immediate future would be contemplated only if the dollar remains strong on exchange markets. In any event, a sizable increase in DM holdings could not be accomplished until the Treasury has further rebuilt its own DM balances. And further additions to yen holdings would depend on Japanese attitudes with regard to intervention and related policies.

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<sup>1/</sup> In applying the limit, it is suggested that foreign currencies be valued at the exchange rate at time of purchase.